Remarks By
Hon. Michael M. Reyna
FCA Chairman and CEO
Before The 21st Annual Farm Credit Meeting
Miami, Florida
January 19, 2004

Opening Comments

Good morning; and thank you for the introduction.

I am pleased and honored to address your distinguished group for the fifth time during my tenure as Chairman and CEO of the Farm Credit Administration (FCA). And, … I am sure my colleagues – Nancy Pellett and Doug Flory – are pleased to be here with you as well. You will have an opportunity to hear from both Nancy and Doug during other portions of your program. Please don't hesitate to chat with us, or any of the FCA staff, … who have joined us at your conference.

My sincere appreciation goes to the Chairman and members of your Farm Credit Council (FCC) for my invitation to address you once again. I would be remiss if I also did not take this opportunity to publicly acknowledge and personally thank Ken Auer and the staff of the FCC for their efforts and hospitality too.

Overview

During my time with you today, I would like to touch on three important topics. First, I will give you an update on the Farm Credit System's (System) performance and current financial condition combined with a discussion of past, present and future agency activities. Second, given our respective roles and responsibilities, I will focus on key aspects of board governance and the critical importance of leadership. … and third, as in years past, I would like to acknowledge and recognize several System institutions for their exemplary efforts during this past year.

Part One: The System and the Agency

System Financial Condition

With regard to the financial condition of the System, I am pleased to say that our regular financial examinations have concluded that the System and each of its institutions are fundamentally sound in all material respects. And … though there has been an increase in required corrective actions in the past 2 years related to regulatory compliance … all System institutions have a CAMELS rating of either "1" or "2" … the highest rating categories on a scale of one-to-five.

As of September 30, 2004, System assets totaled over $115 billion, up $7 billion, or 6.5 percent, over prior year levels. And, as of the same date, gross loan volume stood at approximately $91 billion. This is up $3 billion, or 3.4 percent above the prior year. I think it is important to note that in light of these increases, System institutions continued to strengthen their capital and financial positions through retained earnings and stock purchases in order to meet loan demand and absorb risk in their portfolio. More specifically … during the first nine months of 2003, System capital levels stood at $18.2 billion, which is $1.2 billion above prior year figures, … and enabled capital to remain stable at 15.8 percent of total System assets.

A few other points I would like to make quickly, include:

- Overall asset quality remains high, with the volume of nonperforming assets increasing only slightly. During the preceding 12 months, nonperforming assets increased $44 million or 3.5 percent to $1.3 billion at September 30, 2003. Year-over-year, nonperforming assets as a percent of total loans and other property owned remained relatively stable at 1.41 percent at September 30, 2003.
- The allowance for loan losses (allowance) was considered to be adequate to absorb estimated losses inherent in the System's loan portfolios at September 30, 2003. And, … for direct lender associations, the allowance as a percentage of loans outstanding was 2.20 percent and represented 66.5 percent of adversely classified loans. These figures are roughly comparable to a year earlier.
- The financial statements of Farm Credit System banks remained relatively stable through September 30, 2003. All System banks maintained net collateral ratios exceeding 104 percent and permanent capital ratios ranging from a low of 13.4 percent to a high of 22.9 percent.
- And finally, as of September 30, 2003, all direct lender associations had adverse assets less than risk funds and complied with the provisions of the FCA capital adequacy regulations.

System Performance

As has been experienced over the last decade … the System has had a solid record of financial performance for the period concluding September 30, 2003.

Year-over-year earnings are on solid ground too. Specifically, the System's net income performance for the 9 months ended September 30, 2003, was a robust $1.34 billion, which was only slightly less than the $1.37 billion recorded for the same period in 2002. These earnings translated to a return on average assets of 1.59 percent and a return on equity of 10.15 percent for this period. The comparable ratios for the same period in 2002 were 1.76 percent and 10.98 percent, respectively.

The bottom-line is that the System as a whole … has added yet one more year on to more than a decade of solid financial performance and continues to remain financially strong.

… Please give yourselves a round of applause.

Examination Focus Areas

Looking forward quickly … you may be interested to know that FCA examinations during 2004 will focus on several key areas: first, continued monitoring of System progress in meeting the needs of creditworthy young, beginning and small (YBS) borrowers, while maintaining safety and soundness and compliance with all regulations. Second, our examinations will focus on whether each System institution has an effective system of internal controls in place.

As you know, internal controls serve as checks and balances against undesired actions and provide a reasonable assurance that institutions will operate in a safe and sound manner. In particular, our examiners will consider a number of factors when assessing an institution's internal controls, including:

- Management philosophy and operating style;
- Organizational structure;
- Methods of assigning authority and responsibility;
- Personnel policies and practices;
- Performance accountability;
- Other external influences; and
- Audit and review programs.

Examination Issues of Special Attention and Mention

In addition, we also will be monitoring a new issue regarding changes in accounting guidance regarding the way System institutions determine their allowance for loan losses, and the impact these changes could have on an association's risk funds.

Specifically, the American Institute of Certified Public Accountants (AICPA) is actively attempting to further refine the accounting guidance for the allowance. Likewise, the Securities and Exchange Commission (SEC) and the federal banking agencies have issued guidance with the intent of clarifying their expectations regarding the analysis of the allowance and related documentation. Though their approach differs, the efforts of both the accounting and regulatory bodies have been to minimize subjectivity by requiring additional justification for the established allowance, particularly the "general" reserves.

We anticipate these efforts will have an impact on System institutions' methodologies for determining what actually constitutes an adequate allowance in accordance with Generally Accepted Accounting Principles (GAAP). These changes may also have a significant impact on the amount of the allowance maintained by System institutions. Please be advised that during the examination process, FCA examiners will continue to evaluate your allowance policy and processes … as well as your allowance analysis for compliance with FCA regulations. Ultimately, it is you – an institution's board and management – who are responsible for ensuring that your institution has controls in place to ensure the determination of the allowance is done consistently in accordance with the institutions' policies, GAAP and FCA regulations.

Examiners will also evaluate the impact of the changing accounting practices on capital and risk funds. Please be mindful that the change to the allowance process has not changed the overall level of risk facing your institution and we strongly encourage you to focus on all risks that threaten your institution … and, manage the adequacy of your institution's risk funds. As you know, a key measure the examiners use to evaluate the safety and soundness of your institution is based on the level of risk funds in relationship to the amount of adverse and criticized assets in your loan portfolio.

Because of changes to allowance methodologies, future earnings could be more volatile. Therefore, we encourage each board of directors to establish a minimum level of core earnings that are able to withstand fluctuations in asset quality. With increased volatility, it is likely that the CAMELS ratings for the "earnings" component will change more frequently to reflect the impact of asset quality changes that may occur in your institution. Examiners will continue to focus on core earnings capacity in their earnings analysis and will evaluate the adequacy of earnings considering the volatility that results from these accounting changes.

FCA Activities

I now would like to highlight the agency's efforts during the past year, but before I do I would like to take just a moment to publicly acknowledge and thank all the dedicated public servants working at FCA. Among other things, these individuals are bright, talented, hardworking and, … with their average tenure right at eighteen years … quite knowledgeable too. Like each of you … they care deeply about agriculture and rural America. I firmly believe there is no better staff in all of the federal government … and I am proud to be a part of their ongoing efforts.

The FCA Board was engaged in a full range of issues during the past year … none more important than the creation of the agency's strategic plan that will guide the agency efforts over the next five years. This plan - which was unanimously adopted by the FCA Board - was developed through a consensus building process and reflects a wide array of input from farmers, System representatives, academics, economists and finance specialists, the Farm Credit Council, the American Bankers Association (ABA), the Independent Community Bankers of America (ICBA), as well as former FCA Chairmen, senior managers and employees.

And because we believed it to be very important to do so, … the FCA Board took the opportunity to incorporate our guiding regulatory philosophy into our new strategic plan. Specifically, we indicated we would:

- Continue to identify and eliminate, consistent with law and safety and soundness, all regulations that are unnecessary, unduly burdensome, or not based on law.
- Continue to issue regulations that promote safety and soundness and fulfillment of public mission, while minimizing regulatory burden on the institutions we oversee.
- Continue our commitment to add value to everything we do and help our stakeholders meet the challenges and opportunities of the 21^{st} century.
- Continue to achieve a balance between costs required to operate the agency and the benefits that accrue to our stakeholders, but in no case will we compromise safety and soundness.
- Continue to seek and fully consider the public's perspective regarding regulatory proposals.
- Remain a fair and effective regulator that provides constituencies with timely, accurate, and useful information; and,
- Continue to be a forward thinking organization and promote good communication, teamwork, and a positive, productive, diverse and family-friendly work environment.

Regulatory Activity

Consistent with our guiding regulatory philosophy, the agency continued its efforts this past year to work on a wide range of regulatory issues with input from the System and the broader public. Our first and foremost effort was to solicit comments and suggestions for regulatory burden relief and other regulatory exception requests.

Beyond these issues, however, our regulatory focus has been on:

- Strengthening governance, conflict of interest, disclosure, and audit committee standards;
- Developing appropriate risk weighting of mortgage-backed securities and asset-backed securities consistent with other federal bank regulatory agencies;
- Exploring capital adequacy issues regarding the net collateral ratio requirements for System banks and a capital leverage ratio requirement for other System institutions;
- Examining credit and related services to address regulatory burden comments and to incorporate statutory changes provided by the 2002 farm bill;
- Removing unnecessary impediments for System funding other financial institutions (OFIs), including the risk weighting of OFI loans made by System banks and borrower rights applicable to loans made by OFIs;
- Enhancing our oversight efforts regarding the System's mission to serve YBS farmers and ranchers;

- Reviewing and approving the System's updated market access agreement (MAA);
- Studying the appropriate treatment of loan syndications; and
- Exploring issues surrounding the System's scope and eligibility of lending;

With regard to this last issue - the System's scope and eligibility of lending - the FCA Board held a public meeting on whether to revise current FCA regulations governing the System's scope and eligibility of financing regulations for farmers, ranchers and aquatic producers and harvesters who borrow from System institutions. During this public meeting the FCA Board also heard comments on whether the agency's definition of "moderately priced" rural housing should be revised.

A diverse group of speakers testified at this public meeting, including farmers, agricultural lenders, System borrowers, government officials, and other members of the public. The recommendations we received ranged from no modifications of our current regulations, … to suggestions that would require changes to the Farm Credit Act (Act).

The agency's regulatory agenda for 2004 will be no less busy. Beyond wrapping up work on many of the issues we have been involved in this past year … I anticipate the agency will pursue work on a number of other regulatory issues as well, including:

- Consideration of whether authorized "related services" should include farm management and agricultural trust services;
- Modifying investments eligibility criteria, portfolio limits and liquidity requirements;
- Redesigning of the agency's Loan Accounting and Reports System (LARS) and revisions to our call reports;
- Reviewing the priority of claims pursuant to the statutory joint and several liability requirements imposed on the System;
- Clarifying existing regulations regarding effective interest rate disclosures;
- Redoing existing regulations regarding distressed loan restructuring; and
- Continuing to explore various issues regarding capital adequacy.

Moreover, … relative to Farmer Mac, the agency will be undertaking regulatory projects related to non-program investments and liquidity, as well as updating our risk-based capital standards.

Corporate Activity

As you are probably aware, the pace of System association restructuring slowed considerably during the past year, though bank-level activity actually increased. Specifically, the number of corporate applications submitted for FCA Board review and approval declined to eight applications, compared with 24 applications the prior year. As of January 1, 2004, there were 110 Farm Credit System institutions, including 97 associations, 5 banks, 8 service corporations and special purpose entities.

Other Activities and Accomplishments

Before I move on, I would like to note a few other agency activities and accomplishments. First, as you may be aware, last October the General Accounting Office (GAO) issued a report entitled, "Farmer Mac: Some Progress Made, But Greater Attention To Risk Management, Mission, And Corporate Governance Is Needed." GAO … as you may know -- is the research and investigative arm of the United States Congress.

We were pleased that GAO noted the agency's actions to strengthen our oversight of Farmer Mac to ensure its continued safety and soundness and the achievement of its mission. Beyond the suggested legislative changes and specific findings and recommendations GAO made to Farmer Mac itself, GAO made five recommendations to further enhance the quality and effectiveness of our oversight. Similar to the recommendations GAO made to us regarding our oversight of the System's YBS program, we agreed with those recommendations and are committed to taking action to address each recommendation in a timely and effective manner.

Second, an audit of FCA's 2003 financial statements has been completed recently and I am pleased to announce that - for the tenth year in a row - we have received an unqualified audit opinion. In fairness, I should note that much of the credit for this accomplishment goes to our Chief Financial Officer (CFO) and his hardworking staff.

Third, … like many other organizations in the post-9/11 world, our agency has taken proactive steps to ensure the continuity of our operations in the event of a disaster. For example, we have upgraded our computer recovery capability by establishing an emergency operations center "warm site" that allows us to restore essential computer services within a few hours. We also have joined the Financial and Banking Information Infrastructure Committee (FBIIC). The FBIIC is an information sharing and coordination group with respect to issues relating to homeland security that pertain to federal financial agencies, other committee members, and financial sector participants. This committee is tasked with ensuring that critical financial infrastructure is identified and protected.

Fourth, we are building on the e-government initiatives that we currently have in place. Not only do we have a website that is easy to navigate and has been designed to ensure handicapped accessibility … but, over the past 2 years, we have:

- Provided the System the ability to enter call report data over the Internet;
- Made our call reports and other reports available over the Internet; and
- Made public data from the call reports available over the web.

Currently, we are working on a way for the public to comment on FCA's proposed regulations and to read the comments of others via the Internet. This functionality will first be provided on our website and then later we will partner with the Environmental Protection Agency (EPA) to provide the ability to comment on proposed regulations and read comments of others on a government-wide website sponsored by EPA.

Fifth, because we are keenly aware that our budget is financed from assessments on you … the farmers and ranchers… we continue our ongoing efforts to be good stewards of our budget. For 2003, System assessments to cover our agency operations amounted to only 3.1 basis points -- which is the lowest level in over a decade relative to total System assets.

I know some of you come from the "show me" state so let me give you a little additional perspective on the cost you pay for your regulatory oversight. I submit the following facts for your consideration.

- The growth rate of our budget and assessment has been far below that of the federal government's rate of growth since 1995.
- If our agency was assessing you at the same rate we assessed you in 1995 (that is 5.1 basis points), you would be paying almost double what you actually are paying today.
- FCA's recent approved budget for 2004 is below what the agency "actually" expended in 1995.

Given that year-over-year increases are standard operating procedure, I know of no other government agency that can match a record like the one we have at FCA. And … in a year like this year … that is the kind of record you could run on for President of the United States. So … the bottom-line is my friends … I think we have been pretty good fiscal stewards over the last few years.

Sixth, the agency revised its employee performance evaluation system completely, and when combined with the previously updated agency compensation program, … we effectively moved away from the pay-for-tenure system that plagues most of the rest of the federal government … towards a true pay-for-performance system. The value-added outcome of this effort is a results-oriented agency workforce that is evaluated and rewarded fairly.

Seventh, and finally, because you really cannot write enough rules to govern every specific situation, I note that the agency is continuing its implementation of a value-based management system to guide our daily efforts in very practical and commonsense ways. This approach is grounded in the belief that each and every employee is a valuable member of our team and … that "what" we do is as important as … "how" we do it. I am pleased to report the ongoing culture change that has resulted from instituting this type of management system has greatly improved morale and productivity among the vast majority of employees at the agency.

Part Two: Board Governance and the Importance of Leadership

I now would like to shift my focus to board governance and the critical importance of leadership.

Over the last couple of years, the newspapers and airwaves have been filled with the names of major public companies that have run into financial trouble, or worse simply failed. These problems and high-profile failures resulted in a myriad of questions on what went wrong … and served as the catalyst for a new focus on governance.

Congress responded to this breach of the public trust by passing the Sarbanes-Oxley Act of 2002 detailing new governance requirements. The SEC issued regulations implementing the act, and self-regulatory organizations changed many of their governance standards for companies that traded on their various exchanges.

Though not legally required to enhance their governance practices under Sarbanes-Oxley, some have suggested that cooperatives, … though fundamentally different from publicly traded companies … are morally obligated to do so. Many of you apparently agree with this viewpoint, given that you currently are exploring ways to voluntarily strengthen System governance. I commend you for your efforts.

You know - as I do - that the capital markets view the System's past voluntary efforts on other issues very favorably. The System's MAA and its Contractual Interbank Performance Agreement (CIPA) are two perfect examples. These voluntary efforts have the dual benefit of strengthening the System's financial condition and performance, … as well as raising investor confidence. And as we all know, high investor confidence most often translates into lower borrowing costs. Hence, additional voluntary steps taken by the System to strengthen board governance and improve disclosure can only further add to investor confidence.

As I mentioned previously, we too are looking into a variety of ways to strengthen System governance and improve disclosure. While not an exhaustive list, some suggestions currently under consideration include:

- Providing guidance on director qualifications;
- Requiring System institution boards of directors to complete training on corporate governance topics and to conduct evaluations of their own performance;
- Addressing the number, terms of service and removal of outside directors;
- Refining the current rule on board committees;
- Providing detailed requirements for System institution nominating committees;
- Extending audit committee requirements to all but the smallest System institutions; and
- Clarifying, and expanding, the current rule on the disclosure of conflicts of interest and compensation.

The important point in this discussion is that … while publicly traded companies and the cooperatively owned Farm Credit System are fundamentally different, they do share one very important trait … that is, they both rely heavily on maintaining the public's trust and confidence in their everyday activities. And … according to Hardwick Simmons, former Chairman and CEO of the NASDAQ stock market, this is never so true as when it comes to the effectiveness of the world's capital markets.

In their book entitled, "building public trust: the future of corporate reporting," Samuel Dipiazza Jr. And Robert Eccles list three key elements of public trust, including:

- First, a spirit of transparency, which calls upon organizations to provide willingly to shareholders and other stakeholders the information needed to make decisions;
- Second, a culture of accountability, which demands a firm commitment to accountability among direct participants in the "reporting supply chain;" and
- Third, people of integrity.

Regarding this last point, the authors go on to say, "rules, regulations, laws, concepts structures, processes, best practices and the most progressive use of technology cannot ensure transparency and accountability. This can only come about when individuals of integrity are trying to "do the right thing," not what is expedient or even necessarily what is permissible. What matters in the end are the actions of people, not simply their words. Doing the right thing cannot be compromised, especially through actions that purport to create value for shareholders, but which ultimately betray them."

Why is this quote so relevant? Well … if you are a System director it is because you are responsible for the profitable, safe and sound operation of your institution regardless of economic and financial conditions in local, domestic and international markets. Directors are accountable to both stockholders and investors, and must:

- Understand their institution's operations;
- Provide for competent management;
- Perform their duties diligently;
- Exercise independent judgment; and
- Remain loyal to the institution's interests

By virtue of accepting the position, a director assumes a fiduciary duty (that is, a duty to exercise due care, obedience and loyalty) to the institution and its stockholders (and in some instances, to its creditors) and is therefore liable for damages resulting from a breach of that duty. As you well know, a fiduciary status signifies a special relationship between a director and the institution, which is characterized by trust and confidence in the director and his or her integrity.

Everyone knows the size and complexity of System institutions clearly is increasing, and in response the workload and liability concerns of bank directors is increasing as well. And, I want to let you know I strongly believe safety and soundness reasons dictate that System institutions need to attract and retain the best qualified directors you can find … and pay them appropriately for the job they have been asked to do.

You know … you are not alone when being asked to assume a fiduciary duty, FCA Board members and staff also assume a similar duty upon taking our oath of office. And … our loyalty, obedience and due care flows to, and our actions are on behalf of, the public at large. That is to say, as appointed public servants, we are called upon to serve the general public interest, rather than narrow special interests. And as such, we must take special care to ensure the general public receives “equal access” and “due process” when exercising our official duties.

And as you well know, the public is served best when the interests of all people are valued as the issues that affect their lives are being debated and ultimately decided. To do otherwise, dishonors the office that we hold … and violates the public trust that has been placed in us as public servants.

Good governance – whether in System institutions or at FCA – is absolutely essential and critical. Any failure of the public trust and confidence in us … and our ability to do our job faithfully could cost the System its GSE status and or result in the transfer of FCA’s regulatory role and responsibility to another federal bank regulatory agency.

For example, the well-publicized problems at other GSEs have resulted in Congress examining whether there needs to be an overhaul of the GSE regulatory framework. To prevent this from happening, we must not just serve … we must lead, both individually and collectively.

The Critical Importance of Leadership

In my first speech to you some four years ago, I commented on what I believe it takes to be a good leader, … and I believe those words are as relevant today …as they were then.

At that time I indicated that I believe to be a good leader, … you must be a good listener and have the ability to translate words and ideas into action.

To be a good leader … you must have an unfailing commitment to excellence.

To be a good leader … you must have an open mind and an appreciation for diversity of opinion and approach.

To be a good leader … you must have a basic sense of fairness.

To be a good leader … you must empower others so they can do their job.

To be a good leader … you must have courage, compassion and character. And … maybe most importantly, … to be a good leader you must have integrity. Said more simply, … there must be an absolute consistency between your words and actions.

My friends … while I am sure you could list others … these are the essential qualities I believe every good leader embodies. And these are qualities I believe we all should strive to embody as we carry out our respective board duties. … I certainly have strived to embody them in my role as Chairman and CEO of the Farm Credit Administration.

As I share this with you, please understand that I know you take your role and responsibilities very seriously; and I commend you for that fact. And those of you who know me … know that I take my role and responsibilities at FCA very seriously as well. I am confident you will keep doing your job faithfully … and I promise you this … I will continue to lead faithfully and to the best of my ability, … every minute … of every day … I am at FCA.

Necessary Legislative Changes – Updating the Farm Credit Act

You may remember in my remarks to you last year, I noted that the last major overhaul of the Act was more than thirty years ago and that changes in agriculture and rural America since that time have resulted in the Act being woefully outdated. Working with outdated provisions of law are not only frustrating for you and your borrowers … but for us as well.

There remains a long laundry list of statutory provisions that need to be cleaned up and outstanding issues that need to be addressed … as well as … potential new authorities to be considered. By failing to take the appropriate, essential and critical leadership steps necessary to correct this situation, we do nothing but penalize the very people who would otherwise benefit from such changes.

Again, some of these changes could include a straight forward technical clean up of the Act. Opening up the Act also would create an opportunity to resolve a range of outstanding issues and concerns, including clarification of the System's scope and eligibility of financing authorities. This issue in particular directly relates to the System's GSE status and its strong desire to provide agriculture and rural America a full range of financial products and services.

You know … one of the advantages of being on the Farm Credit Administration Board for close to five and one half years, … and serving as its Chairman and CEO for most of that time, ... is that you gain a better appreciation of the challenges and opportunities that abound. … And in particular, I have gained a greater understanding and insight into changes that could enhance the effectiveness of the FCA Board's decision-making and strengthen our oversight of System activities.

With regard to the Act and FCA, Congress could consider a number of changes to clarify our mission, improve our governance and decision-making, minimize potential conflicts of interest, and enhance the efficiency and effectiveness of our operations. As I mentioned last year, one such change could involve merging FCA and the Farm Credit System Insurance Corporation so as to clearly define our mission and enhance our effectiveness. Funding the new agency's operations could come from the Farm Credit

System Insurance Fund and its interest earnings, rather than through direct assessments on System institutions as is done now.

Given today's added scrutiny on board governance and conflicts of interest, … another change could involve altering the existing FCA Board structure. Specifically, better geographical balance and public representation could be accomplished by shifting from a three-member fulltime board to a five-member part-time board. A variety of arrangements could be employed to ensure this improvement could be achieved at no net cost to the System.

The broader public representation of a five-member board would result in better decision-making; … and, in light of the existing Sunshine Act difficulties the FCA Board now experiences, better communication too. Under this structure, if one, or even two vacancies occurred at the same time on the FCA Board, the board still would be able to conduct its business. Such a change would strengthen board governance and minimize the risk that our activities and efforts are compromised.

For a regulatory agency governed by a board of directors like FCA, minimizing conflicts of interests that compromise our objectivity in rulemaking and when undertaking enforcement actions is essential. This is true regardless of whether such a compromise comes from a direct financial conflict or an ethical conflict of the "fox guarding the hen house" type.

The suggestions I have mentioned today are but a few of a long list of other potential changes to the Act. While there no doubt will be a range of opinions on exactly what changes should be made to the Act, I seriously hope we can all agree that it is woefully outdated and tattered; and look forward toward continuing our dialogue on this topic.

Part Three: Recognition of Exemplary Efforts

I now would like to highlight some of your outstanding leadership efforts regarding young, beginning and small farmers and your use of agricultural loan guarantee programs.

As in years past, I asked the FCA staff to review the efforts of all System institutions and to present me those institutions that have done an exemplary job with regard to their YBS farmer program or their agricultural loan guarantee program. Let me say that I continue to be very pleased with the progress System institutions have made in these two important areas.

The FCA staff would be the first to tell you that there are many excellent programs in operation around the country and that singling a handful out for recognition is not an easy task. The risk inherent in this task, of course, … is failing to acknowledge an institution whose efforts are truly a cut above. If you are one of those institutions … I say keep up the great work … next year will be here before you know it.

While who is singled out for commendation is ultimately a judgment call, FCA staff do evaluate YBS programs using a number of solid criteria, including the extent to which association programs:

- Offer an educational component;
- Provide for extensive outreach;
- Make effective use of financial incentives, such as differential loan underwriting standards, lower fees and or interest rates;
- Year-over-year increase in program activity; and
- Overall effectiveness of an institution's YBS program, among other factors.

Today, I am presenting three institutions with a Chairman's commendation for their exemplary YBS programs:

- Farm Credit of Western New York (Chairman Rodney Stettner -- President and CEO Michael Gerber). This institution demonstrated impressive gains during the past two years, with increases in all categories of YBS lending. They hold an annual young farmer conference for couples and several one-day specialized consulting sessions. And, … I would like to personally commend Chairman Stettner who authored an article entitled "Young Farmers, Bright Futures ... Continuing the Tradition," which appears on the association's website.
- FCS of East Central Oklahoma, ACA (Chairman Dan Childs – President and CEO Herbert "Hub" Ariola). This association has developed a special web page for YBS customers that provides specialized advice and available loan guarantees. Beyond this effort, the association -- in cooperation with Oklahoma State University -- has established a special program entitled, "Student Board of Directors," which enables students to receive special briefings and to work on case studies … and they even get paid to attend board meetings. The program is open to students who are enrolled in the college of agriculture, have a farm background and plan to return to the farm or ranch after graduation.
- Northwest Farm Credit Services, ACA, PCA, FLCA (Chairman Gary Smith – President and CEO Jay Penick). This association implemented a specialized YBS program entitled, "Agvision" which resulted in a significant improvement in the number of YBS loans. As part of this program, the association holds educational seminars for young and beginning farmers and provides participants with $400 toward the cost of attending the session or the purchase of a computer. There also is a full-time staff member assigned to this program and they have an incentive program in place for loan officers. In addition, the association has implemented less restrictive underwriting standards and provides preferential pricing and allows fee waivers for YBS borrowers.

With regard to agricultural loan guarantee programs, FCA staff evaluated the dollar volume of guarantee loans, the number of guarantee loans, and the proportion of guarantee loans in an institution's overall portfolio.

For the exemplary use of agricultural loan guarantee programs, I am presenting a Chairman's Commendation to the following institutions:

- Dollar volume of guarantee loans: Farm Credit Services of Missouri, ACA (Chairman Meredith Kapp – President and CEO Daryl Oldvader;)
- Total number of guarantee loans: Delta ACA (Chairman W.C. Mencer -- President and CEO Mark Kaufman) – not attending;
- Percent of total loan portfolio: AG Credit ACA (Chairman Dennis Schroeder – President and CEO Neil Jordan).

Please join me in recognizing them for their outstanding efforts this past year.

Thank you again for the invitation to speak today.

God bless you … and God bless agriculture and rural America.